NO. 18775

IN THE

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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ALBERT LAPIN and LAPINAL, INC.,

Appellants,

vs.

SHULTON, INC., and TECNIQUE, INC.,

Appellees.

APPELLANTS' OPENING BRIEF

APPEAL FROM
THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF CALIFORNIA
CENTRAL DIVISION

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TABLE OF AUTHORITIES CITED

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JURISDICTIONAL STATEMENT

This is an appeal from an order of the United States District Court for the Southern District of California, Central Division, entered on December 4, 1962 (motion for rehearing under Rule 59, F.R.C.P., denied by order entered April 29, 1963) dismissing the complaint herein. The action was brought under Rule 60(b) of the Federal Rules of Civil Procedure for relief from an injunction issued on July 5, 1951, by the United States District Court for the District of Minnesota, on the ground that because of changed circumstances it is no longer equitable that the

judgment of the Minnesota Court should have prospective application.

Appellants, on May 27, 1963, filed a timely notice of appeal and this Court's jurisdiction rests upon 28 U.S.C., Section 1291.

STATEMENT OF THE CASE

The Minnesota Decree - 1951

The appellants have brought this case under Rule 60(b) of the Federal Rules of Civil Procedure, to dissolve an injunction issued on July 5, 1951, by the United States District Court for the District of Minnesota in Civil Action File No. 3232. After a trial in which the Lapins (appellants' predecessor in interest) had attempted to terminate an exclusive license agreement for the manufacture of a hair coloring preparation and La Maur, Inc. (appellee Shulton's predecessor in interest) had resisted the termination and counterclaimed for injunctive relief to enforce its exclusive license agreement, the Trial Court in Minnesota issued the original injunction on December 30, 1950, as follows:

> "Now, therefore, pursuant thereto, you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, your agents, servants, employees and attorneys, and all persons in active concert or participation with you, including Lapinol, Inc., a California corporation, and its successors or assigns, hereby

are jointly and severally commanded forthwith to cease and desist from, and are enjoined and prohibited from directly or indirectly further manufacturing, producing, compounding, making, preparing, selling, delivering, disposing of, or distributing 'Lapinal' hair-dye or any other hair-dye made by or in accordance with or covered by the formula and/or formulas and process which is the subject matter of the License Agreement of November 22, 1947, between Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin as parties of the first part, and La Maur, Inc., as party of the second part, or any improvement therein or thereof, including the use of any ingredient added by defendant La Maur, Inc., on or about and since February 13, 1948; and from, directly or indirectly licensing, causing, consenting to, or assisting or cooperating in, the same by any person, party, firm or corporation other than said defendant; and are further enjoined and prohibited from, directly or indirectly, disclosing or causing to be disclosed, said formula and/or formulas or process or any improvement therein to any person, party, firm or corporation other than said defendant, so long as the said License Agreement remains in force and effect." (R. p. 3 and 4) (Emphasis added)

Over six months later, the District Court on July 5, 1951, pursuant to settlement stipulation of the parties, entered an Amendment and Modification of Findings of Fact,

Conclusions of Law and order and decree granting an amended writ of injunction as follows:

"Now, therefore, pursuant thereto you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, and your agents, servants, employees and attorneys, and all persons in active concert or participation with you or them, including Lapinol, Inc., a California corporation, also known as LapinAl, and its successors and assigns, hereby are, jointly and severally, enjoined and prohibited from selling, transferring, assigning, divulging or disposing in any manner whatsoever, directly or indirectly, to any other person, firm or corporation, including any and all persons other than you Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin yourselves, who now or hereafter are or may become interested in said LAPINOL, INC. or its successors or assigns, whether as investors, money-lenders, agents, employees or otherwise the formula or formulas or process for the manufacture of 'LAPINOL' hair dye, also known as 'LapinAL', or any other hair dye, or hair coloring or hair tinting products or process now known to or hereafter devised by you or any of you, made by or in accordance with or covered by the formulas and process which are the subject matter of the License Agreement of November 22, 1947 between you as parties of the first part and La Maur, Inc., as party of the second part (of which Exhibit 'A' attached to the Complaint in this case is a copy), or any improvements therein or thereof, or any interest or right in any of the foregoing; and are further, jointly and severally, enjoined and prohibited from licensing, authorizing, causing, consenting to, assisting or suffering, directly or indirectly, any person, firm or corporation, to manufacture, produce, compound or sell, or distribute 'LAPINOL' hair dye, also known as 'LapinAL', or any other hair dye or hair coloring or hair tinting products or process now known to or hereafter devised by you or any of you, made by or in accordance with or covered by the formulas and process which are the subject matter of said License Agreement, or any improvements therein; and are further, jointly and severally, enjoined and prohibited from divulging or disclosing or causing to be divulged or disclosed, directly or indirectly, to any person, firm or corporation whatsoever the secret formula or process for the manufacture of 'Tecnique', or any changes or improvements therein made or to be made by defendant La Maur, Inc., but are jointly and severally commanded and enjoined to keep the same forever in strict confidence and secrecy.

Provided, however, that the foregoing restraint, prohibition and command shall not be construed to prevent you, Albert Lapin, individually or through the instrumentality of said LAPINOL, INC. from manufacturing 'LAPINOL' or 'LapinAL', or any other hair dye or hair coloring or hair tinting product other than 'Tecnique', or from selling the same in the usual course of the beauty trade for so long, but only so long, as you, Albert Lapin, Isadore Lapin, Samuel Lapin and Harold Lapin, and each of you, and your agents, servants, employees and attorneys, and all persons in active concert or participation with you or them and said LAPINOL, INC. shall refrain from violating the foregoing injunctions, prohibitions and commands, and for so long, but only so long, as said LAPINOL, INC. shall remain a corporation with the majority of each class of shares of stock or other securities issued by it owned and held by you, Albert Lapin, to your own account, free and clear of any encumbrances, restrictions and agreements, and you, Albert Lapin, continue as its principal officer; and on the additional condition that you, Albert Lapin, and/or said LAPINOL, INC. shall not adopt or use the name 'TECNIQUE' or any name resembling or similar to the word 'TECNIQUE', or resembling or similar to any other name or mark used by defendant LA MAUR, INC." (R. p. 4, lines 26-32, p. 5 and lines 1-29 of p. 6).

The Sale to Shulton

There was no further change in the legal situation until 1959 when the following events transpired:

(a) On August 19, 1959, a Certificate of Incorporation of Tecnique, Inc., New Jersey, was filed;

(b) On the same day, stock purchase agreements, dated August 19, 1959, provided, in general, for the sale of all of the Tecnique (Minnesota) preferred stock by La Maur, Inc. (R. p. 164, lines 22-24) and for the sale of all of the common stock by Maurice L. Spiegel, Walter C. Samith and Sigmond Pass (R. p. 164, lines 28-31).

By this transaction, La Maur, Inc. received $50,000 on the sale of its preferred stock, and, as its cost basis thereon was $2,730, La Maur realized a long-term capital gain, after expenses in connection with the sale of $45,587. Shulton, Inc., also acquired at the time it purchased La Maur's preferred stock, all of the common stock of Tecnique (Minnesota) for an undisclosed additional price. These are the statements of La Maur, Inc., and Leonard, Street & Deinard, its counsel (R. p. 243, 244) in a prospectus filed with the Securities & Exchange Commission in the Spring of 1962. The assets of Tecnique (Minnesota) seem to have been substantially the same as those purchased from appellants and their predecessors in interest in 1951. (Rep. Tr., p. 32, lines 22 to 25)

The Complaint

On July 7, 1962, appellants filed this complaint alleging that both Shulton and Tecnique (New Jersey) maintain places of business in Los Angeles County (R. p. 2, lines 28-30); that Tecnique is the wholly owned subsidiary of Shulton (R. p. 2, lines 25-28); there is in existance an injunction or consent decree (R. p. 4, lines 22-32, p. 5, and p. 6, lines 1-29); that Shulton has a consolidated net worth in excess of $28,000,000 and consolidated sales in excess of $57,000,000 (R. P. 7, lines 10-12) while appellant Lapinal, Inc., which has been manufacturing Lapinal since 1951, has a net worth of approximately

$110,000 and sales of $360,000 (R. p. 7, lines 13 to 19) and that changed conditions arising since the issuance of the injunction of 1951 have made its prospective application inequitable and oppressive to appellants and of no legitimate benefit to appellees (R. p. 7, lines 21-24).

The Answer

On August 12, 1962, appellees filed a joint answer to the complaint which, in addition to denials, raised affirmative defenses to the effect that the relief sought for could only be granted in the United States District Court for the District of Minnesota; that Tecnique (New Jersey) was not validly served; that Tecnique (New Jersey) is an indispensable party to the maintenance of the action and that the complaint fails to state a claim upon which relief can be granted (R. p. 20 and 21).

The Interrogatories

On September 6, 1962, appellants served on appellees a series of 124 interrogatories (R. p. 100 to 123, incl.) as the first step in its discovery upon the issues raised by the answer of the appellees as to the jurisdiction of the Court. These interrogatories were designed to elicit information as to evidentiary documents and witnesses with particular reference to the issues raised by the appellees as follows:

(1) Whether or not Tecnique (New Jersey) was an indispensable party and, as a prelude thereto, to es-

tablish the identity, the financing and management of Tecnique and the extent of its interest in the subject matter of the litigation.

(2) Whether or not Tecnique (New Jersey) had any corporate existence separate from Shulton, Inc., or whether or not Tecnique, New Jersey, was the alter ego or instrumentality of Shulton, Inc.;

(3) Whether or not Tecnique, Inc. did any business in Southern California and, if so, the nature and extent of such business;

(4) Whether or not any agency relationship existed between the appellees (R. p. 125-149).

On October 15, 1962, appellees filed objections to appellants' interrogatories 26 and 42 to 124, inclusive, and on October 26, 1962, appellees filed its answers to appellants' interrogatories 1 to 41 (R. p. 159 to 168).

Appellees had also filed interrogatories on October 23, 1962 (R. p. 152 to 157) and appellants filed their objections to appellees' interrogatories on November 1, 1962 (R. p. 171 to 176).

The Motion to Dismiss

While the foregoing matters were pending, appellees on November 14, 1962, three months after the filing of their joint answer, filed a motion to dismiss the complaint (R. p. 180) on the following two grounds:

(1) The purported service of process upon

appellee Tecnique, Inc., a New Jersey corporation, was ineffective and invalid; and

(2) Appellee Tecnique, Inc. is an indispensable party to the action and since service was ineffective, no valid or enforceable decree could be entered in the case.

On November 20, 1962, there were the following matters scheduled to be heard by the trial court: motion to dismiss the complaint, appellees' objections to appellants' interrogatories, appellants' objections to appellees' interrogatories and a motion by appellees for leave to file an amended answer (Rep. Tr. p. 3, lines 21-25 and page 4, line 1). There was also, at the hearing, an oral motion by Melvin H. Siegal, a Minneapolis attorneys representing the appellees, to quash a subpoena and notice of the taking of his deposition under Rule 30(b) of Federal Rules of Civil Procedure (Rep. Tr. p. 5, lines 24-25, p. 6, lines 1-4). All of these matters were held in abeyance and the District Court ruled only on the motion to dismiss.

The Order Dismissing the Complaint

On December 4, 1962, there was entered an order granting the appellees' motion to dismiss (R. p. 225-227), in which the District Court, relying entirely upon affidavits, dismissed the complaint on the grounds that

(a) Mr. Breiseth, Regional Manager of appellee

Shulton, Inc., had stated in an affidavit that he was not connected in any way with Tecnique (New Jersey) which is not licensed to do business and which does not do business in California (R. p. 225, lines 27-32);

(b) It appears that Tecnique is the owner of the decree of injunction sought to be dissolved and therefore an indispensable party (R. p. 226, lines 7-9);

(c) The Court found that there was no proper service upon Tecnique, an indispensable party (R. p. 227, lines 19-29).

Appellants' Rule 59 Motion

On December 12, 1962, appellants moved to amend and modify the judgment pursuant to Rule 59, Federal Rules of Civil Procedure, as follows:

1. For a rehearing under Rule 59 of the Federal Rules of Civil Procedure on the appellees' motion to dismiss the complaint;

2. To open the judgment and to take additional evidence by deposition or affidavit under Rule 59(a)(2);

3. For a plenary trial upon the jurisdictional issue raised by the appellees' motion to dismiss;

4. To alter or amend the judgment heretofore entered (R. p. 234).

This motion was supported by an affidavit of F. G. Stapleton with exhibits (R. p. 236 to 255, incl.) and a

Statement of Reasons and Memorandum of Points and Authorities (R. p. 256 to 264). The appellees, in opposition, filed certain additional affidavits (R. p. 265 to 271, incl.).

The Order Denying Appellants' Rule 59 Motion

On April 29, 1963, the District Court entered its Memorandum and Order (R. p. 273 to 278, incl.) which, in essence, rejected all of the contentions of the appellants' Rule 59 motion except that the judgment was modified to read "with prejudice." Thereafter, this appeal was taken.

SPECIFICATION OF ERROR RELIED ON

1. The District Court erred in granting judgment to appellees, dismissing the complaint;

2. The District Court erred in concluding that appellee Tecnique, Inc., a New Jersey corporation, is the apparent owner of the injunction sought to be dissolved;

3. The District Court erred in concluding that the appellee Tecnique, Inc., was an indispensable party to the action;

4. The District Court erred in concluding that there was no proper service upon appellee Tecnique, Inc.;

5. The District Court erred in concluding that the corporate separation between the corporate appellees is real and not mere fiction;

6. The District Court erred in concluding that the relief sought by appellants should only be sought by

motion in the District Court where the original decree was issued;

7. The District Court erred in denying appellants a reasonable opportunity to complete its discovery as to the facts placed in issue by appellees on the issue of jurisdiction;

8. The District Court erred in denying appellants' right to a plenary trial.

QUESTIONS PRESENTED

I Whether the District Court, on the appellees' motion to dismiss made after the answer had been filed and based upon statements in self-serving affidavits which were controverted by appellants, was correct in determining as a matter of law that:

(a) Appellee Tecnique had title to and was the owner or apparent owner of a formula for a hair dye and of certain rights flowing from an assignment of an injunction; and

(b) Appellee Shulton was not the agent of appellee Tecnique where Shulton owns all the stock of Tecnique, where Tecnique operates out of Shulton's plant in New Jersey, where both corporations have common directors and officers and where Shulton operates under an oral agreement with Tecnique; and

(c) Appellee Tecnique was not doing business in the District; and

(d) The separation between the corporate appellee Shulton and the corporate appellee Tecnique was real and that Tecnique was not the alter ego of Shulton;

(e) Based on the foregoing, appellee Tecnique was an indispensable party not properly served; where appellees had answered only 40 out of 124 interrogatories served by appellants after the answer but before the motion to dismiss had been served and where appellants were denied any discovery after the motion to dismiss.

II. Whether the District Court, on the appellees' motion to dismiss made after the answer had been filed and based upon statements in self-serving affidavits which were controverted by appellants, was correct in granting the motion to dismiss and denying appellants' motion for a plenary trial where the issues raised by the appellants' motion were substantive issues in the case as well as jurisdictional issues.

SUMMARY OF ARGUMENT

Three months after the answer had been served and the case was at issue, appellees made a motion to dismiss on the ground that Tecnique (New Jersey) was an indispensable party who had not been properly served. The evidence offered by the appellees in support of this motion consisted of two affidavits by Nicholas J. Livoti (R. p. 187 and 190) who is the Assistant Secretary of the

appellee Shulton and Secretary of the appellee Tecnique (New Jersey) and an affidavit by Norton M. Breiseth, Regional Manager of appellee Shulton in California and ten western states (R. p. 183-184). Appellants controverted this evidence by affidavit and exhibits (R. p. 236-241, incl.).

In arriving at this conclusion and in dismissing the complaint, the District Court held:

(a) That Tecnique (New Jersey) was the owner of a formula for hair dye and of certain rights under an injunction issued to La Maur, Inc., by the United States District Court of Minnesota on July 5, 1951, which formula and rights had been assigned on December 17, 1959, by La Maur to Tecnique (Minnesota) and again assigned on December 18, 1959, by Tecnique (Minnesota) to Tecnique (New Jersey), thus necessarily passing on the legal sufficiency and effect of two assignments of rights under an injunction;

(b) That Tecnique, New Jersey, was not doing business in the district;

(c) That appellee Shulton was not the agent of Tecnique (New Jersey) although Shultcn owns all the stock of Tecnique (New Jersey); Tecnique (New Jersey) operates out of the Shulton plant in New Jersey; both corporations have common officers and directors and Shulton operates under an oral license agreement with

Tecnique (New Jersey);

(d) That the corporate separation between the appellees Shulton and Tecnique (New Jersey) was real and that Tecnique (New Jersey) was not the alter ego of Shulton.

Appellants contend the judgment of dismissal should be reversed because:

(1) The Court's conclusions were not supported either by fact or law in holding that Tecnique (New Jersey) was an indispensable party;

(2) Appellants have a clear right to a plenary trial where the factual merits of the case must be considered in deciding the jurisdictional issue; and

(3) The Trial Court refused to allow the appellants any discovery as to the jurisdictional issues which were raised by the appellees' motion to dismiss.

I

THE DISTRICT COURT'S CONCLUSION THAT TECNIQUE (NEW JERSEY) IS AN INDISPENSABLE PARTY WHO HAD NOT BEEN EFFECTIVELY SERVED IS NOT SUPPORTED BY THE EVIDENCE.

An Analysis of the Appellees' Evidence:

In the first order (dated November 30, 1962) on the motion to dismiss, the District Court enumerated the evidence in support of its order, as follows:

(a) An affidavit by Norton M. Breiseth, Regional Manager of Shulton, Inc., in which he stated that he "is not connected in any way with the other defendant Tecnique, Inc." (R. p. 225, lines 25-29). Yet Breiseth, after this disclaimer, proceeds to describe Tecnique as a New Jersey corporation not licensed to do business in California and does not have solicitors, employees, salesmen or other representatives in California (R. p. 183-184).

(b) An affidavit by Nicholas J. Livoti who is both Secretary of Tecnique, Inc. and Assistant Secretary of Shulton, Inc., from which it appears that appellees are separate and distinct corporations, although Tecnique (New Jersey) is a wholly owned subsidiary of appellee Shulton, Inc. (R. p. 226, lines 1-6).

(c) No evidence is cited in the opinion in support of the District Court's conclusion that "Tecnique, Inc. is the owner of the decree of injunction sought to be dissolved by this action and is therefore an indispensable party (R. p. 226, lines 7-9), although the Court had before it and presumably considered Exhibits B through E to the affidavit of Nicholas J. Livoti as follows:

(1) Exhibit B, Bill of Sale dated December 17, 1959, from La Maur, Inc. to Tecnique, Inc., a Minnesota corporation (R. p. 192-193);

(2) Exhibit C, Bill of Sale dated December 18, 1959, from Tecnique, Inc., a Minnesota corporation, to Tecnique, Inc., a New Jersey corporation (R. p. 194, 195);

(3) Exhibit D, Assignment dated December 17, 1959, of judgment and decree from La Maur, Inc. to Tecnique, Inc., a Minnesota corporation (R. p. 196-197);

(4) Exhibit E, Assignment dated December 18, 1959, of judgment and decree from Tecnique, Inc., a Minnesota corporation, to Tecnique, Inc., a New Jersey corporation (R. p. 198-199).

(d) No evidence is cited in support of the Court's conclusion that the corporate separation between the two appellees is real and not mere fiction and should not be ignored to determine jurisdiction (R. p. 226, lines 14-16).

In response to appellants' motion under Rule 59 (R. p. 234), the appellees supplemented their evidence by an affidavit by John K. Bangs, House Counsel for Shulton, Inc. (R. p. 265 to 267) and a further affidavit by Norton M. Breiseth (R. P. 270-271). The affidavit of Bangs, the House Counsel, after reciting that he was "fully aware of the legal affairs"of the appellees (R. p. 266, line 11) described the relationship of Tecnique (New Jersey) and Shulton as follows:

"Shulton, Inc. caused the organization of a New Jersey corporation, Tecnique, Inc., for the purpose of acquiring and continuing the business of Tecnique, Inc., a Minnesota corporation. Tecnique, Inc. (New Jersey) purchased all of the stock of Tecnique Inc. (Minnesota) and thereafterwards caused the dissolution of Tecnique Inc. (Minnesota) with distribution of all of its business and assets in liquidation to Tecnique Inc. (New Jersey) as sole shareholder." (R. p. 266, lines 13-18)

This then was the evidence in support of the motion to dismiss before the District Court. It consists of affidavits of Livoti, the Assistant Secretary of Shulton, Inc. of Bangs, the House Counsel for Shulton, Inc., and of Breiseth, the Western Regional Manager for Shulton, Inc., all of whom, as employees of Shulton, have an obvious interest in the outcome of this litigation.

Since the appellees' motion to dismiss was predicated upon the assertion that Tecnique (New Jersey) was an indispensable party, it became necessary to determine who Tecnique (New Jersey) was and what was the nature and extent of its substantial interest. Although the appellants were denied any discovery after the motion to dismiss was served, the following evidence was placed before the Court in opposition to the motion to dismiss:

1. Tecnique (New Jersey) was organized by the appellee Shulton on August 19, 1959 (appellees' answer to appellants' interrogatory 20, R. p. 164, lines 11-13) for the purpose of acquiring and continuing the business of Tecnique (Minnesota) (Bangs' affidavit, R. p. 266, lines 12 to 14). This was the same day on which

stock purchase agreements for the sale of the stock of Tecnique (Minnesota) were executed (appellees' answer to appellants' interrogatory 28, R. P. 165, lines 11-17).

2. The Bill of Sale from La Maur, Inc. to Tecnique (Minnesota) (R. p. 192-193) and the assignment of the judgment and decree from La Maur, Inc., to Tecnique (Minnesota) were dated December 17, 1959, eight years after the injunction had issued and four months after La Maur, Inc. had sold its shares in Tecnique (Minnesota)

3. The Bill of Sale from Tecnique (Minnesota) to Tecnique (New Jersey) (R. p. 194-195 was executed by Richard M. Parks and Nicholas J. Livoti. Parks was not only a Vice President and Director of Shulton (appellees' answer to appellants' interrogatories 16 and 17, R. p. 163, lines 8-9 and 29) but also a Vice President of Tecnique (Minnesota) (R. P. 195) and a Vice President of Tecnique (New Jersey) (R. p. 162, lines 20-25). Nicholas J. Livoti was not only an Assistant Secretary of Shulton (R. p. 163, lines 21-22) but was also Secretary of Tecnique (Minnesota) (R. p. 195) and Secretary of Tecnique (New Jersey) (R. p. 162, line 24). These gentlemen simultaneously represented both parties to this transaction and the sole shareholder of both the assgnor and the assignee at the same time.

4. At the time of the execution of the said Bills of Sale and Assignment in December, 1959, the

appellee Shulton not only owned all of the shares of stock of Tecnique (Minnesota), the assignor, but also owned all of the shares of stock of Tecnique (New Jersey), the assignee. The individuals who acted for the assignor, Tecnique (Minnesota) and for the assignee Tecnique (New Jersey) were both corporate officers of Shulton and one was also a member of the Board of Directors of Shulton.

5. In addition to the documents themselves, the transaction by which La Maur, Inc. sold its shares in Tecnique (Minnesota) was described once by La Maur and once by Shulton in the public records of the Securities & Exchange Commission (see letter dated August 24, 1962, from Raymond J. Sullivan, Chief, Public Reference and Correspondence Section, Securities & Exchange Commission, R. p. 242).

(a) In the Spring of 1962, La Maur, Inc., through Paine, Weber, Jackson & Curtis, Stockbrokers, undertook a substantial public offering of its shares and filed a Registration Statement with the Securities & Exchange Commission. This filing occurred more than two years after the stock sale to Shulton but, in accordance with the requirement of the Commission, the transaction was described at length as follows:

"In 1959 the Company sold to Shulton, Inc., a

cosmetics manufacturer, its preferred stock in a corporation known as Tecnique, Inc., a distributor of permanent hair coloring products, a hair lightener and a hand cream. The Company received $50,000 on the sale of its stock and, as its cost basis therein was $2,730 the Company realized a long-term capital gain, after expenses in connection with the sale, of $45,487. Shulton, Inc., also acquired at the time it purchased the Company's preferred stock in Tecnique, Inc., all of the common stock thereof.

"The Common Stock of Tecnique, Inc. was owned as follows: Maurice L. Spiegel--70%, Walter C. Smith--15%, Sigmund B. Pass, an unaffiliated person--15%.

"The Company did all of the manufacturing of Tecnique's products under an arrangement whereby the Company was paid its costs plus 10% plus a percentage of certain other operating costs. The percentages of the Company's sales to Tecnique to the Company's total sales in the calendar years 1957, 1958 and 1959 were as follows:

Year	Percentage of Company's Sales to Tecnique to Company's Total Sales
1957	5.85
1958	5.12
1959	4.59

"In connection with the sale of the Tecnique stock, the Company gave to Shulton, Inc. a covenant not to compete, under which the Company agreed, in essence: that it would not for a period of 25 years manufacture, sell, distribute or license any products under the label of 'Tecnique' nor for such 25-year period would it use the word 'Tecnique' alone or in conjunction with other words; and that, for a period of 5 years, it would not manufacture, sell, distribute or license any permanent hair coloring, as distinguished from a temporary hair coloring; and that, for a period of 5 years, it would not manufacture, sell, distribute or license any products for the retail trade competitive with any product marketed by Tecnique for the retail trade at the time of the above sale of that company's preferred stock. As indicated by the

above, the products that were then marketed by Tecnique to the retail trade were permanent hair coloring products, a hair lightener and a hand cream." (R. p. 243 and 244)

This is a clear and unequivocal statement by La Maur, the seller of the shares of Tecnique (Minnesota) that the buyer of the shares was Shulton; that a restrictive covenant was given by La Maur to Shulton and there is no mention whatever of Tecnique (New Jersey).

(b) The Form 10K (Annual Report) filed by Shulton, Inc., for the year 1959, in accordance with Section 15(d) of the Securities & Exchange Act of 1934 and Rule X-15D-1 of the General Rules and Regulations under the Securities Act of 1934, within 120 days after the close of the year, was also before the trial court (R. p. 245). In this form, prepared and filed before this litigation was commenced, Shulton stated that it acquired all of the capital stock of Tecnique (Minnesota); that it (Shulton) dissolved Tecnique (Minnesota) and the assets were subsequently conveyed to and its liabilities were subsequently assumed by Tecnique (New Jersey).

These statements, made independently by La Maur, the seller, and Shulton, the buyer, before this litigation was commenced and in official reports to a

regulatory agency of the United States Government, directly refute the sworn statements of Mr. Livoti to the effect that Tecnique (New Jersey) acquired all of the stock of Tecnique (Minnesota) (R. p. 164, lines 14-17) and that Shulton did not acquire all of the stock of Tecnique (Minnesota) (R. p. 18-21). It also refutes the affidavit of Mr. Bangs, House Counsel for Shulton, in which he states that Tecnique (New Jersey) purchased the shares of Tecnique (Minnesota) (R. p. 266, lines 12-18) although Mr. Bangs may perhaps be excused since he is discussing a transaction which occurred (August, 1959) before he became employed by Shulton (September, 1959).

Further support for the appellants' claim that Shulton was the real party in interest and the actual purchaser of the shares of Tecnique (Minnesota) comes from Mr. Melvin Siegel of the Minneapolis firm of Leonard, Street and Deinard who was admitted specially to argue the motion to dismiss before the District Court. After counsel for the appellants had presented to the Court the records of the Securities & Exchange Commission contradicting not only the answer (R. p. 18 line 32, p. 19, lines 1-3) but also the affidavit of Mr. Bangs (R. p. 266, lines 12-18) and appellees' answer to appellants' interrogatories 21 and 22 (R. p. 164, lines 14-21), Mr. Siegel confirmed the appellants'

contentions in the following language:

> "I do want to comment as to the statements that were made, though they were not called to my attention by way of service of affidavit, but I am familiar with the facts. And since he has seen fit to call your Honor's attention to documents which have not even been called to your Honor's attention, let me state what I think appears in the answers to the interrogatories as to how the sale took place.
>
> "Shulton purchased from La Maur all of the stock which La Maur held in Tecnique of Minnesota. And it also purchased from Tecnique of Minnesota all of Tecnique of Minnesota's stock.
>
> "Consequently, Tecnique of Minnesota then and there became a 100 per cent owned subsidiary of Shulton, just as Tecnique of New Jersey now is.
>
> "So it is true that La Maur did sell its stock interest in Tecnique of Minnesota to Shulton, and Tecnique of Minnesota sold its stock interest to Shulton." (Rep. Tr., p. 64, line 16 to p. 65, line 7)

In the light of the sworn statement by the seller, La Maur, that it sold the shares of Tecnique (Minnesota) to Shulton and the statement by Shulton, the buyer, that it purchased the shares of Tecnique (Minnesota) and the statement of Mr. Siegel, it is extremely difficult for us to see how the District Court could have found in Tecnique (New Jersey) an interest in the subject matter of this litigation of such substance as to render it an indispensable party where Shulton is already a defendant and admittedly before this Court.

6. Tecnique (New Jersey) has no manufacturing facilities separate from Shulton, Inc. (appellees'

answer to appellants' interrogatory 11, R. p. 161 lines 26 to 29).

7. Tecnique (New Jersey) has no warehouse or storage facilities separate from Shulton, Inc. (appellees' answer to appellants' interrogatory 12, R. p. 161, lines 30-32 and page 162, line 1).

8. Tecnique (New Jersey) occupies the same business premises as Shulton, Inc. in Passaic, New Jersey (appellees' answer to appellants' interrogatory 6, R. p. 161, lines 1-4).

9. The following are officers and directors common to Shulton, Inc., Tecnique (New Jersey) and, in part, Tecnique (Minnesota):

(a) Richard N. Parks is Vice President of Tecnique (New Jersey) (appellees' answer to appellants' interrogatory 14, R. p. 162, line 23); Vice President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 8-9); a member of the Board of Directors of Shulton, Inc. (appellees' answer to appellants' interrogatory 17, R. p. 163, line 29); and was a Vice President of Tecnique, Inc., Minnesota as of December 18, 1959, (see Bill of Sale December 18, 1959, from Tecnique, Inc. Minnesota to Tecnique, Inc. New Jersey, Exhibit C to affidavit of Nicholas J. Livot in support of appellees' motion to dismiss, R. p. 195).

(b) Nicholas J. Livoti is Secretary of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 14, R. p. 162, line 24); Assistant Secretary of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 21-22); and was Secretary of Tecnique, Inc., Minnesota, as of December 18, 1959 (see Bill of Sale December 18, 1959, from Tecnique, Inc., Minnesota, to Tecnique, Inc., New Jersey, Exhibit C to affidavit of Nicholas J. Livoti in support of appellees' motion to dismiss, R. p. 195).

(c) William H. O'Brien is Treasurer of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 14, R. p. 162, line 25); a member of the Board of Directors of Tecnique, Inc., New Jersey, (appellees' answer to appellants' interrogatory 15, R. p. 162, line 30); Vice President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 12-13); and a member of the Board of Directors of Shulton, Inc. (R. p. 163, line 32).

(d) George L. Schultz is a member of the Board of Directors of Tecnique, Inc., New Jersey (appellees' answer to appellants' interrogatory 15, R. p. 162, line 28); President of Shulton, Inc. (appellees' answer to appellants' interrogatory 16, R. p. 163, lines 3-4); and a member of the Board of

Directors of Shulton, Inc. (R. p. 163, line 27).

All of the officers and directors of Tecnique (New Jersey), with the single exception of Sig Pass, are officers and/or directors of Shulton, Inc.

10. Tecnique (New Jersey) carries on business correspondence on stationery of Shulton, Inc. (R. p. 246)

11. Shulton, Inc., dealt as the principal in connection with the very subject matter of this litigation (see letter dated July 31, 1961, on Shulton, Inc., letterhead signed by George L. Schultz, President (R. p. 247) (see letter dated June 26, 1962, on Shulton, Inc., letterhead signed by John K. Bangs, House Counsel, R. p. 248).

12. Shulton, Inc., advertises and sells "Tecnique by Shulton" not only to the retail trade (see Exhibit G, R. p. 249, and Exhibit H, R. p. 250), but also to the <u>professional trade</u>. Mr. Livoti was wrong when he answered appellants' interrogatory 13 in which he tried to establish that Shulton, Inc., sold only to the retail trade, while Tecnique, New Jersey, sold only to the professional trade. That Shulton, Inc., sells directly to the professional trade is shown by the following exhibits:

(a) Exhibit I - Advertising brochure by "Shulton-Tecnique Division" which clearly shows a

"professional package" (R. p. 251);

(b) Exhibit J - Double page advertisement for "Tecnique Professional Color-Tone by Shulton" (R. pp. 252 and 253);

(c) Exhibit K - Advertisement by "Shulton-Tecnique Division" for professional trade (R. p. 254);

(d) Exhibit L - Advertisement by "Shulton-Tecnique Division" for professional trade (R. p. 255).

Exhibits I, J, K and L were obtained by appellants' counsel in the course of preparation for this action in 1962.

13. There is evidence in the record that Breiseth and Williams of Shulton, Inc., make sales calls for "Tecnique" on Mercury Beauty Supply of Los Angeles and that "Tecnique" is ordered by that company by telephoning "SP 6-1888" which is the telephone number listed on page 1267 of the Los Angeles Central Telephone Director for "Shulton, Inc. 5431 West 104th St." (R. unnumbered page between pp. 240 and 241, lines 27-32, p. 241, lines 1-4).

14. Tecnique, Inc., New Jersey, and Tecnique, Inc. Minnesota, were wholly-owned subsidiaries of Shulton, Inc., in December 1959, and Tecnique, Inc., New Jersey, has remained a wholly-owned subsidiary of Shulton, Inc., as of the date of this action (paragraph I of joint answer of Shulton, Inc., and Tecnique, Inc., New Jersey,

admitting allegation to the effect in paragraph I of the complaint herein, R. p. 8, lines 23-27).

It therefore appears that appellants, in spite of the refusal of the District Court to allow pre-trial discovery after the motion to dismiss was filed, have nevertheless established by a fair preponderance of the credible evidence that Tecnique (New Jersey) is simply an instrumentality which has no rights of substance apart from those of Shulton, Inc; that Shulton, Inc., is the real party in interest and is properly before the Court and that Tecnique (New Jersey) is neither a necessary nor an indispensable party to this action.

II

WHERE THE DEFENDANTS BY AFFIDAVIT RAISE ISSUES OF FACT REGARDING THE JURISDICTION OF THE COURT OVER ONE OF THE DEFENDANTS, THE DISTRICT COURT SHOULD ALLOW PLAINTIFFS TO COMPLETE THEIR PRE-TRIAL DISCOVERY BEFORE DECIDING THE ISSUES OF FACT.

There is no need to cite authority for the proposition that since a United States District Court possesses only such jurisdiction as has been conferred by statute, the question of its jurisdiction is a "threshold issue" in every case. Since the Court is obligated to satisfy itself on this issue, whether or not raised by the parties,

the Court necessarily has the power to make such determination. It is also the general rule that jurisdictional issues are triable by the Court except when the issue as to jurisdiction involves or impinges upon an issue of substantive law in the case (See Point III, infra, p.

In this case, the appellees made a motion to dismiss on the basis of lack of jurisdiction over the appellee Tecnique (New Jersey) on the ground that Tecnique (New Jersey) had not been properly served by process. Although the motion to dismiss (R. p. 180 and 181) makes no reference to the Federal Rules of Civil Procedure, authority for the motion can be found in Rule 12(b)(2) or 12(b)(5). Although Rule 12(b) relating to defenses which may, at the option of the pleader be made by motion, makes reference to matters outside the pleading only in connection with the defense of failure of the pleading to state a claim [Rule 12(b)(6)], the District Court accepted and considered affidavits (Livoti and Breiseth [R. p. 189 to 199, incl.]) in support of the appellees' motion to dismiss. Moreover, appellees' made their joint motion to dismiss approximately three months after the appellees had appeared and served and filed their joint answer in spite of the requirement of Rule 12(b) that "a motion making any of these defenses shall be made before pleading if further pleading is permitted.

Since we have found no case in which a District

Court has granted a motion to dismiss on the basis of affidavits or other matters outside the pleadings and since we have found no reason to assume that Rule 12(b) does not mean what it says as to the time at which the motion "shall" be made, there is some reason to doubt that the motion to dismiss, as presented, should have been entertained by the Court.

Assuming, however, that the District Court does have the right to accept and consider matters outside the pleadings and that the motion to dismiss was timely under Rule 12(b), the appellants nevertheless contend that the District Court erred in refusing to allow appellants to complete their discovery. We call the attention of the Court to the language of Rule 12(b) and Rule 12(c) which, in connection with the reference to the consideration of matters outside the pleadings, specifically provides, not only that such motions shall be treated as motions for summary judgment but "that all parties shall be given reasonable opportunity to present all material made pertinent to such a motion by Rule 56." We believe that this language imposes upon a District Court the obligation of allowing appellants to complete its pre-trial discovery where the appellees have, by affidavit, put in issue facts which bear on the jurisdiction of the Court and which are directly controverted by appellants.

We are supported in our belief by the following

line of authority:

(a) Monteiro v. San Nicolas, S.A., 2nd Cir., 1958, 254 F. 2d 514. In an opinion written by Judge Medina, the Second Circuit Court of Appeals reversed a District Court which had dismissed a libel (admiralty) on the sole basis of affidavits submitted on behalf of the defendant. The Court of Appeals found that the trial court erred in not considering plaintiff's opposing affidavit which controverted the denial of an agency relationship and of a claim that defendant was not present in the district. It ordered a hearing before the District Court and not before a Commissioner.

(b) River Plate Corp. v. Forestal Land, Timber & Railway Co., Ltd., 185 F. Supp. 832, D.C. S.D. N.Y. 1960. This case was decided by the District Court Judge whose opinion had been overruled in the Monteiro v. San Nicolas, S.A. case. The defendants had moved under Rule 12(b) to quash service and to dismiss the complaint as to each of them. The Court denied the motions on the ground that since there was some evidence that there may have been some prior activities of the defendant in the district sufficient to constitute presence in the jurisdiction, the plaintiff should be afforded an opportunity to explore the question of whether such activities have continued and whether service of process was valid. The plaintiff

was permitted to proceed with depositions, citing the language of the Monteiro case to the effect that it has been held error to grant a motion to dismiss without affording plaintiff an opportunity to explore the jurisdictional facts.

(c) General Ind. Co. v. Birmingham Sound Reproducers, Ltd., U.S.D.C. E. D.N.Y., 1961 26 F.R.D. 559. In this case, plaintiff, in a patent infringement case, served two foreign corporations, alleging, among other things, that one of the corporations conducted business in the district in the name of another domestic corporation and that it was the alter ego of the second corporation. Both foreign corporations moved to dismiss the complaint on the ground that they were not found in the jurisdiction and had not properly been served with process. The court directed defendant to answer plaintiff's interrogatories, citing the Monteiro and River Plate cases "for the proposition that courts must allow litigants reasonable opportunity to prove that the court has jurisdiction over the cause." (Ibid, p. 561)

(d) Ziegler Chemical & Mineral Corp. v. Std. Oil of Calif., 32 F.R.D. 241 (1962). In November, 1962, Judge Zupoli in the United States District Court, N.D. Calif. S.D., denied a defendant's motion to dismiss which had been based upon a claim that the defendant

did no business in the district. The Court held that the interests of justice would be served if plaintiff were given an opportunity for pre-trial discovery even where, at the time the motion to dismiss was made, jurisdiction and venue had not been established.

III

PLAINTIFFS ARE ENTITLED TO A PLENARY TRIAL WHERE ISSUES OF FACT DETERMINATIVE OF JURISDICTION ARE ALSO DETERMINATIVE OF THE SUBSTANTIVE ISSUES ON THE MERITS.

As we have seen, the District Court summarily dismissed the complaint in this action on the ground that the appellee Tecnique (New Jersey) was an indispensable party who had not been properly served. In order to arrive at this result, the Court was required to decide:

(a) That Tecnique (New Jersey) was a corporate entity which had rights, independent of the defendant Shulton who is admittedly before the court, of such substance that the trial court could not proceed without Tecnique (New Jersey);

(b) That Tecnique (New Jersey) which was organized by Shulton on the very day (August 19, 1959) when Shulton agreed to purchase from La Maur the shares of Tecnique (Minnesota), acquired certain rights

to a formula for hair dye and to an injunction by a series of assignments and bills of sale executed four months after Shulton acquired the stock of Tecnique (Minnesota);

(c) That the right to the formula for hair dye and to the injunction were assignable and that the instruments of conveyance were bona fide instruments supported by a valid consideration rather than formal acts by two servants of the same master without genuine substance or significance;

(d) That in spite of the obvious interrelationship, Tecnique was a separate entity and not the alter ego of Shulton, Inc.;

(e) That Shulton was not the agent of Tecnique through which Tecnique (if it has any substance at all) does business within the district where the appellees asserted that there was an oral agreement between the two;

(f) That Tecnique was not doing business directly within the district.

To a significant degree these issues coincide with the issues going to the merits. The substantive foundation of appellants' claim for relief against the prospective application of the injunction is that there have been significant changes in conditions and circumstances between 1951 and 1962 which have resulted in rendering the

injunction of no benefit to appellees and an instrument of oppression to appellants. At the trial, the Court will necessarily have to determine who is, in contemplation of law, the current beneficiary of the right granted by the injunction. This will involve proof of the origin of such right, the current existence of the rights and the devolvement of such rights by conveyance or by operation of law or otherwise. It will require the court to determine, as a matter of substantive law, whether Tecnique (New Jersey), Shulton, La Maur or some other party is the legal and beneficial owner of the formula and of the rights under the injunction before it can decide what relief appellants are entitled to and against whom.

We believe that the District Court, in undertaking to decide summarily the issues in this case, committed error. This problem was considered by Judge Mathes in an elaborate opinion in Shaffer v. Coty, Inc. (1960) 183 F. Supp. 662. After establishing the general rule as to the authority of a District Court in its discretion to determine how jurisdictional issues are to be decided, Judge Mathes discussed limitations placed on this authority by reviewing courts (p. 666). In language which might have been written particularly for this case, Judge Mathes stated the rule of law:

> "The question confronted here then is whether, in a case invoking the equity jurisdiction of this Court, the trial judge as fact-finder may in his

discretion decide a jurisdictional issue summarily or must try it plenarily, albeit perhaps as a 'separate issue' under Rule 42(b). Where the jurisdictional issue to be determined in a non-jury case stands apart from the issues as to the merits of the controversy, as for example, a challenge as to citizenship in a diversity case, it is appropriate to try that issue summarily, upon motion, and by receiving and weighing affidavits. See: Land v. Dollar, supra, 330 U.S. at page 735, 67 S.Ct. at page 1010; KVOS, Inc. v. Associated Press, supra, 299 U.S. at pages 278-279, 57 S.Ct. at page 201; Wetmore v. Rymer, supra, 169 U.S. at page 119, 18 S.Ct. at page 295; Morris v. Gilmer, 1889, 129 U.S. 315, 326, 9 S.Ct. 289, 32 L.Ed. 690; Seideman v. Hamilton, 3 Cir., 1960, 275 F. 2d 224, 226, affirming D.C.E.D.Pa. 1959, 173 F.Supp. 641, 642-644, certiorari denied 80 S.Ct. 1258; Lane Bryant, Inc. v. Maternity Lane, 9 Cir., 1949, 173 F. 2d 559, 562.

"On the other hand, where a jurisdictional issue coincides in whole or substantial part with an issue going to the merits, as for example a challenge as to the amount of damage in controversy, considerations of policy underlying the due-process concept are said to require that determination be made only after plenary trial, even in non-jury cases."

In the Shaffer case, Judge Mathes granted the motion to dismiss because it appeared "to a legal certainty" that the requisite jurisdictional amount was not in controversy after the parties had been accorded the privilege of offering and cross-examining witnesses and having announced that they (the parties) had brought forth all the evidence that they wished to proffer on the issue.

In this case, the issues are considerably more complex than the amount of damages and those issues which are raised by the motion to dismiss coincide with the sub-

stantive issues. Under these circumstances and on the authority of Shaffer v. Coty (supra) and the cases cited therein, appellants should have been granted a plenary trial after having been allowed a reasonable opportunity, by available methods of discovery, to obtain and to present all material relevant and pertinent to the issues raised by the motion.

CONCLUSION

The appellants in this action have been denied their day in court in the only judicial district in which appellants and Shulton can both be found. This was accomplished by the granting of a motion to dismiss based solely upon affidavits in a situation where:

(a) appellants presented to the Court documentary evidence directly controverting the affidavits of appellees;

(b) the jurisdictional issues coincide to a substantial degree with the substantive issues on the merits;

(c) appellants were denied a reasonable opportunity to obtain, by normal discovery methods, and present to the Court facts relevant to the issues raised by the appellees motion to dismiss.

The judgment of the District Court should be reversed in that the District Court committed error in that

(a) The judgment of dismissal was not supported by the evidence in the record; and

(b) Appellants were deprived of a plenary trial on issues which were simultaneously procedural and substantive; and

(c) Appellants were deprived of a reasonable opportunity to obtain, by normal discovery methods, the facts which were relevant to the issues raised by the defendants' motion to dismiss.

Respectfully submitted,

STAPLETON, WEINBERG AND ISEN

By _____
F. G. Stapleton
Attorneys for Plaintiffs-Appellants, Albert Lapin and Lapinal, Inc.

CERTIFICATE OF COUNSEL

STATE OF CALIFORNIA)
) ss
COUNTY OF LOS ANGELES)

I, F. G. STAPLETON, one of the attorneys for the above named Appellants, ALBERT LAPIN and LAPINAL, INC., do hereby certify that I have examined the provisions of Rules 18 and 19 of the above entitled Court, and that in my opinion the tendered brief on behalf of Albert Lapin and Lapinal, Inc., conforms to all requirements.

DATED: August 16, 1963.

F. G. Stapleton